

**REPORT OF THE AUDIT OF THE
NICHOLAS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE NICHOLAS COUNTY SHERIFF

**For The Year Ended
December 31, 2004**

The Auditor of Public Accounts has completed the Nicholas County Sheriff's audit for the year ended December 31, 2004. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Revenues increased by \$4,517 from the prior year and expenditures decreased by \$2,168.

Lease Obligation:

The Sheriff's Office is committed to one lease agreement with a balance of \$472 as of December 31, 2004.

Report Comments:

- The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments
- The Sheriff Owes \$1,799 In House Bill 577 Fees To The Fiscal Court
- The Sheriff Is Due \$4,380 In Salary For Calendar Year 2004 And \$4,275 For Calendar Year 2003
- The Sheriff Should Make Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	5
COMMENTS AND RECOMMENDATIONS	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Nicholas County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2004, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Larry Tinch, Nicholas County Judge/Executive
Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments
- The Sheriff Owes \$1,799 In House Bill 577 Fees To The Fiscal Court
- The Sheriff Is Due \$4,380 In Salary For Calendar Year 2004 And \$4,275 For Calendar Year 2003
- The Sheriff Should Make Daily Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Nicholas County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, cursive script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2006

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services:

Finance and Administration Cabinet	\$ 6,954	
Cabinet For Families and Children	<u>110</u>	\$ 7,064

Circuit Court Clerk:

Sheriff Security Service	4,887	
Fines and Fees Collected	<u>3,140</u>	8,027

Fiscal Court		15,250
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County Clerk - Delinquent Taxes		222
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Commission On Taxes Collected		57,760
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Fees Collected For Services:

Auto Inspections	400	
Accident and Police Reports	81	
Serving Papers	6,120	
Carrying Concealed Deadly Weapons Permits	<u>2,601</u>	9,202

Other:

Sheriff's Add-On Fees	10,859	
Sheriff's Advertising Fees	600	
Refund from State	503	
Miscellaneous	<u>250</u>	12,212

Interest Earned		150
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Borrowed Money:

State Advancement		<u>22,000</u>
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Total Revenues		<u>\$ 131,887</u>
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The accompanying notes are an integral part of this financial statement.

NICHOLAS COUNTY
 LEONARD T. GARRETT, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 30,000	
Other Salaries	13,509	\$ 43,509

Contracted Services-

Communications	1,363	
Computer Maintenance and Repairs	88	
Copier Lease	477	1,928

Materials and Supplies-

Office Materials and Supplies		712
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Auto Expense-

Gasoline	5,322	
Maintenance and Repairs	567	5,889

Other Charges-

Paid:

Fiscal Court HB 577	1,200	
Advertising	14	
Dues	325	
Postage	222	
Bond	335	
Carrying Concealed Deadly Weapons Permits	1,360	
Bank Service Charge	16	
Miscellaneous	213	3,685

Debt Service:

State Advancement		22,000
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Total Expenditures

\$ 77,723

Net Revenues

\$ 54,164

Less: Salary Paid Sheriff

52,840

Excess Fees

\$ 1,324

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

NICHOLAS COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

Note 4. Lease Agreement

The Sheriff's Office was committed to a lease agreement with IOSCapital for a copier. The agreement requires a quarterly payment of \$118 for 36 months to be completed on February 23, 2006. The total remaining balance of the agreement was \$472 as of December 31, 2004.

COMMENTS AND RECOMMENDATIONS

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments

Testing of expenditures conducted during the audit indicates the Sheriff was paid in varying amounts throughout calendar year 2004. KRS 64.535 requires the Sheriff to "receive a monthly salary of one-twelfth (1/12) of the amount indicated by the salary schedule in KRS 64.5275" (statutory maximum). We recommend the Sheriff's salary be paid in accordance with KRS 64.535.

Sheriff's Response:

Will try to.

The Sheriff Owes \$1,799 In House Bill 577 Fees To The Fiscal Court

Based on our review of receipts, the Sheriff received \$2,999 in fees authorized by the 2000 General Assembly in HB 577. Also, his records indicate he owes \$1,799 to the Fiscal Court. HB 577 provides for fiscal courts to assess additional fees and costs in Circuit and District Court in civil and criminal cases to pay expenses for courthouses, bonds related to them, and administration. We recommend the Sheriff pay HB 577 fees due to the county.

Sheriff's Response:

It will be paid.

The Sheriff Is Due \$4,380 In Salary For Calendar Year 2004 And \$4,275 For Calendar Year 2003

The Sheriff was underpaid by \$4,380 for calendar year 2004 and \$4,275 for calendar year 2003. KRS 64.5275 allows the Governor's Office for Local Development to determine a salary schedule for Sheriffs. According to this schedule, the Sheriff's compensation for calendar year 2004 should have been \$57,220. The Sheriff was paid \$52,840. The Sheriff was paid in varying amounts throughout calendar year 2004. However, the underpayment amount for both years was less than one-twelfth (1/12) of the yearly salary requirement set forth in KRS 64.535, which states the Sheriff shall "receive a monthly salary of one twelfth (1/12) of the amount indicated in the salary schedule." We recommend the Sheriff request the balance of salary due for 2003 and 2004 from the Fiscal Court. We also recommend the Sheriff discuss this matter with the County Attorney and Governor's Office for Local Development.

Sheriff's Response:

Will contact these people to try to resolve.

NICHOLAS COUNTY
LEONARD T. GARRETT, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

STATE LAWS AND REGULATIONS: (Continued):

The Sheriff Should Make Daily Deposits

Deposits are not being made each day as recommended by the Uniform System of Accounts. Some days when receipts are small, the receipts are being held and deposited days later. This often results in a delay of more than three business days before a day's receipts get posted to the bank statement. While we understand that the deposits being held are normally less than \$30, we recommend the Sheriff make daily deposits as recommended by the Uniform System of Accounts.

Sheriff's Response:

Will correct.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. The Sheriff has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. However, having one person solely responsible for these duties compromises the internal control structure of the sheriff's office. Having only one individual who is responsible for all duties increases the risk that misstatements or errors may occur and not be detected in a timely manner. The Sheriff should consider implementing the following controls to help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff.
- All checks should be signed by two people, with one being the Sheriff.
- Bank reconciliation prepared monthly and agreed to the receipts and disbursements ledgers by the Sheriff.

Sheriff's Response:

Will work on.

PRIOR YEAR:

- Sheriff Should Not Make Payments For Personal Expenses From Official Funds
- Sheriff Should Eliminate The Deficit Of \$5,361 In His Fee Account
- Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Tincher, Nicholas County Judge/Executive
Honorable Leonard T. Garrett, Nicholas County Sheriff
Members of the Nicholas County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Nicholas County Sheriff for the year ended December 31, 2004, and have issued our report thereon dated March 28, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nicholas County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition noted above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Nicholas County Sheriff's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff's Salary Should Be Paid In Twelve Equal Monthly Payments
- The Sheriff Owes \$1,799 In House Bill 577 Fees To The Fiscal Court
- The Sheriff Is Due \$4,380 In Salary For Calendar Year 2004 And \$4,275 For Calendar Year 2003
- The Sheriff Should Make Daily Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 28, 2006

